Press Release

Buildmet Fibres Private Limited

April 21, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	71.09	ACUITE BBB+ | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	71.09	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB+' (read as ACUITE t riple B plus)** to the Rs.71.09 Cr. bank facilities of Buildmet Fibres Private Limited (BFPL). The outlook is **'Stable'.**

Rationale for rating assigned

The rating assigned takes into account the established market position of the company in the FIBC bags segment especially in the export markets such as Switzerland, Australia, USA, and Germany among others. The ratings also factors in the improvement in business risk profile of the company during the current fiscal (i.e. 10MFY22) despite onset of second covid-19 wave in Q1FY22. The rating also draws comfort from the extensive experience of the promoters in the aforementioned industry for more than two decades with healthy and long term relationships with its customers and suppliers. The company's liquidity position remains adequate with healthy financial risk profile. However, the rating is constrained by working capital intensive nature of operations and risks associated towards volatility in foreign currency fluctuations.

About the Company

Incorporated in 1987, Buildmet Fibres Private Limited (BFPL) is based out of Bangalore and is currently engaged in manufacturing and exporting of FIBC bags and allied products with a capacity of 1000 tonnes per month. The company currently has three manufacturing plants located in Bangalore.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of BFPL to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations with experienced management
BFPL is based out in Bangalore and was incorporated in the year 1987 reflecting an established track record of operations for more than two decades. The company is promoted by Mr. Ramakrishnan who is also the Chairman and Managing Director of the company with 40 years of experience in the said line of business.The day to day operations of the company are managed by the promoter along with experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters has helped the company to established long and healthy relationships with its customers and suppliers over the years. The extensive experience of the promoter also helped the company to upgrade themselves on regular basis to cater to the changing market needs as per the end user industries.
Acuité believes that the company will sustain its existing business profile over the medium term on the back of an established track record of operations with an experienced management.

Augmentation in business risk profile despite the impact of covid-19
The revenue of the company stood at similar levels of Rs.170.39 Cr. in FY21 compared to revenue of Rs.170.23 Cr. in FY20. The revenues remained moderate majorly on account of the onset of covid-19 pandemic which restricted the movement of goods and people. However, after gradual resumption of economic activities, the operations of the company witnessed improvement as reflected by revenues registered in 10MFY22 which stood at Rs.201.04 Cr. despite the onset of a second covid-19 wave. This growth is majorly on account of healthy demand for FIBC bags across various end user industries especially from the food industry, which is also the latest upgradation in the company's product portfolio.
Further the profitability of the company remained moderate marked by operating profit margin of 11.34 percent in FY21 compared against 11.40 percent in FY20. The PAT margin improved from 3.35 percent in FY20 to 4.45 percent in FY21 on account of lower depreciation and interest expenses. Further, the company has also adopted cost reduction measures like installation of solar plants for captive use in their manufacturing plants to reduce the power costs which is expected to benefit the company over the medium term.
Acuité believes that the business risk profile of the company will continue to improve on account of healthy demand expected for the FIBC bags catering to the food and other industries over the medium term.

Healthy financial risk profile
The financial risk profile of BFPL continued to remain healthy marked by tangible net worth of Rs.48.62 Cr. as on 31 March, 2021 as against Rs.41.28 Cr. as on 31 March, 2020. The improvement in net worth is attributable to higher accretion to reserves on account of consistent growth in profitability.The gearing level of the company improved and stood moderate at 0.83 times as on 31 March, 2021 as against 0.95 times as on 31 March, 2020. The improvement was majorly on account of increase in net worth of the company. The total debt outstanding of Rs.40.58 Cr. consists of working capital borrowings of Rs.22.62 Cr. and tem loan of Rs.17.96 Cr. as on 31 March, 2021. The coverage ratios continued to remain healthy with improved Interest Coverage Ratio (ICR) of 9.23 times for FY21 against 6.42 times for FY20. The Debt Service Coverage Ratio (DSCR) stood at 2.25 times for FY21 against 5.04 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.29 times as on March 31, 2021.
Acuité believes that the financial risk profile of the company is likely to remain healthy over the medium term on account of expected growth in scale of operations and low gearing levels.

Weaknesses

Working capital intensive operations
BFPL's working capital operations are intensive as evident from Gross Current Asset (GCA) of 129 days as on March 31, 2021, as against 89 days as on March 31, 2020. The high GCA days is majorly on account of increase in the inventory levels of 57 days for FY21 as compared to 31 days for FY20. Subsequently, the debtor days also increased and stood at 48 days for FY21 against 34 days for FY20. The creditor days of the company stood at 59 days for FY21 as

against 29 days for FY20. Despite the high GCA days the average utilization of the working capital limits of the company remained moderate at ~59 percent in last six months ended Dec' 21.
Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Susceptibility of margins to raw material price fluctuation and foreign exchange fluctuation risk
As BFPL is engaged into manufacturing of FIBC bags, the major raw material required to manufacture such products is polypropylene granules and low density polyethylene which is a derivative of crude oil and the prices of crude oil are directly affected by various macroeconomic factors. Similarly, the prices of such raw materials are also volatile in nature and such fluctuations in the major raw material price may impact the operating profit margin of the company. Furthermore, the company also deals in exports to various countries across the globe which contributes around ~95 per cent to the total revenues in FY21 and ~92 per cent in FY20 respectively. As a result, the company's business is exposed to fluctuations in foreign exchange rates. However, such risk are mitigated to an extent due to the hedging policies adopted by the company.

Rating Sensitivities
Significant improvement in scale of operations and profitability margins.
Any stretch in the working capital cycle leading to an increase in reliance on working capital borrowings and liquidity position.

Material covenants

None

Liquidity Position: Adequate

BFPL has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.15.14 Cr. in FY21 compared against maturing debt obligations of Rs.5.66 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.18.20-24.65 Cr. during 2022-24 period while its matured debt obligations are estimated to be in the range of Rs.2.50 – 6.00 Cr. during the same period. The company reliance on working capital borrowings is also on a lower side marked by average utilization of working capital limits of ~59 percent during the last six months period ended Dec' 2021. Furthermore, the company maintains unencumbered cash and bank balances of Rs.2.88 Cr. as on March 31, 2021, and the current ratio also stood moderate at 1.32 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals and the matured debt repayments over the medium term.

Outlook: Stable

Acuite believes that BFPL will maintain a stable "outlook" in the medium term and will continue to benefit over the medium term due to its experience management and healthy demand of its products in the market. The outlook may be revised to "Positive" if the company demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	170.39	170.23
PAT	Rs. Cr.	7.59	5.70
PAT Margin	(%)	4.45	3.35

Total Debt/Tangible Net Worth	Times	0.83	0.95
PBDIT/Interest	Times	9.23	6.42

Status of non-cooperation with previous CRA (if applicable)

BWR, vide its press release dated Jan 18, 2022 had denoted the rating of BUILDMET FIBRES PRIVATE LIMITED as 'BWR B+; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

None

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB+ | Stable | Assigned
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB+ | Stable | Assigned
ICICI Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+ | Stable | Assigned
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ | Stable | Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.40	ACUITE BBB+ | Stable | Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.51	ACUITE BBB+ | Stable | Assigned
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	10.18	ACUITE BBB+ | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.